

National Bank: tenge adequately responded to negative external background

Since the beginning of the month tenge has demonstrated negative dynamics on the domestic foreign exchange market even though November is the so-called 'tax month'. Aliya Moldabekova, Deputy Governor of the National Bank, spoke about reasons behind tenge weakening and main events in the external and internal markets.

- Almost the entire November, especially its last days, we witnessed weakening tenge. What is a reason behind this?

The dynamics of the tenge exchange rate reflect current trends in the external and internal markets. This is primarily due to the drop in oil prices, which began in late October. As we have already noted, price of oil quotes decreased for several reasons, the main of which include forecasts of excess supply in the energy market and intentions of the US President Biden's administration to sell strategic oil reserves.

Subsequently, the situation only got worse: fears of a coordinated use of strategic oil reserves escalated. Yesterday, the US President instructed the Department of Energy to prepare for release 50 million barrels of oil from the strategic oil reserve in order to reduce fuel prices, 32 million barrels of which will be replenished in the future. The White House highlighted that, together with the United States, a number of other countries, including the UK, China, India, South Korea and Japan, will take a similar step. There is a new surge in COVID-19 that is sweeping across Europe and the United States. The whole world is watching as European countries are forced to introduce tough restrictive measures.

Against this background, price of Brent crude oil reached a minimum of USD 77.58 per barrel. Excluding yesterday's significant correction upwards, oil prices fell 8.2% after reaching USD 86.4 per barrel on October 26.

The global strengthening of the US dollar continues against currencies of both developed countries and emerging markets. According to experts, reelection of J. Powell as Fed Chairman for a second term will support trend of normalization and further tightening of monetary policy, which leads to strengthening of the American currency.

All the above-mentioned factors have entailed weakening of EM currencies, including tenge. Since Friday's opening last week, the Turkish lira has lost 15.5% of its value, the Mexican peso 2.2% and the South African rand 1.4%. The Russian ruble lost more than 1.5% and weakened to 75 rubles per USD amid increasing geopolitical uncertainty around Ukraine, the migration crisis in Belarus, and escalation of the Karabakh conflict. Overall, EM currencies have dropped by 3.8% since early November, while DXY has appreciated 2.5% versus developed countries. Tenge has depreciated since Friday last week by 0.4%, since the beginning of November by 1.2%.

- It is clear about external factors, but how do internal factors develop for tenge? Wasn't the tax period supposed to support the tenge?

- Deteriorating in the dynamics of fundamental external factors have caused an increase in demand for foreign currency, both from legal entities and from households. Moreover, end of a calendar year is traditionally featured by an increase in demand for foreign exchange due to use of budgets and execution of contracts.

Amidst recovering economic activity, imports continue to grow. According to results of 9 months of this year, imports from Russia reached USD 12.1 billion, a 24.7% surge year-on-

year. According to results of only the third quarter of this year, imports from Russia reached USD 4.5 billion, a 29.2% upsurge compared to the third quarter of 2020.

Considering the share of the Russian Federation in total imports, weakening of the Russian ruble had a negative impact on the tenge. Moreover, deterioration of the geopolitical background has led to more significant weakening of the ruble compared to other currencies of emerging markets and a shift in the ruble-tenge parity from 6.0 to 5.8. This has created an additional pressure on the tenge in recent days.

Tax period, despite traditional market expectations, has not provided significant support to the national currency rate. Exporters, contrary to analysts' forecasts, sell foreign currency to a limited extent; they use previously accumulated tenge liquidity to pay taxes to the budget. Accordingly, due to small volumes of 'tax' sales, pressure on the foreign exchange market increased, because those companies that were waiting for the tax week to buy foreign currency were forced to buy USD in conditions of a limited supply.

- Reports have appeared that exchange offices do not have enough foreign currency in cash due to restrictions imposed by second-tier banks. Please comment on the situation.

- As I have already pointed out, demand for foreign currency has increased not only from companies but also from households. This is to a certain extent connected with achievement of the level of 430 KZT/ USD and the current tenge weakening trend in recent days, which has boosted activities of the population to purchase foreign currency.

Volumes of both purchases of cash currency through bank and non-bank exchange offices and purchases of non-cash currency through online platforms of STBs expanded. Today, more and more conversions take place online. After requirements to exchange offices were made tougher from January 1, 2020, number of non-bank exchange offices plummeted as of November 1 of this year by almost 40%.

Non-bank exchange offices purchase foreign currency in cash from second-tier banks. STBs indicate an increasing demand from exchange offices, for example, in the third quarter of this year an average monthly volume of purchases from exchange offices was USD 280 million, meanwhile in October - first half of November its volume grew to USD 380 million.

The increase in demand has led to an increase in a difference (spread) between exchange rates on the stock exchange and exchange rates in exchange offices but I would point out that there is no shortage of cash dollars. Banks fix sales volumes and exchange rates for exchange offices on their own. In conditions of market exchange rate formation, higher demand and limited supply do not lead to a deficit of foreign currency but to weakening of the tenge exchange rate to a level that brings into balance this supply and demand.

- And what can become a balancing factor or a support factor in the current situation for tenge?

- It should be understood that in the context of market volatility, the current situation with weakening of the EM currencies, including the tenge, has a temporary nature and is an adequate response to negative external background. Thus, following yesterday's close, currencies of exporting emerging markets slightly enhanced against the background of rising oil prices.

Continuing recovery in the economic activity and growing imports are objective factors affecting the volume of demand for foreign currency. Balancing factor that directly affects supply of foreign exchange is the price of oil.

Many analysts believe that the oil market 'responded' to intentions of some countries to sell strategic reserves of black gold and energy prices plummeted. This is confirmed by yesterday's significant correction in the oil market based on news that actual implementation of strategic oil reserves by the US turned out to be less than the market expected.

Moreover, OPEC+, in response to pressure on oil quotes and the potential use of strategic reserves by countries, announced its readiness to revise a plan to boost oil production, which will support the oil market, and, accordingly, support the tenge.